Tennessee State Veterans' Homes Board

For the Year Ended
June 30, 1999

Arthur A. Hayes, Jr., CPA, JD, CFE
Director

Edward Burr, CPA
Assistant Director

Katherine J. Anderson, CPA
Audit Manager

Laura S. Fugate
In-Charge Auditor

Blayne Clements
Joseph Hulsey
Harry Lee
Robyn R. Probus
Staff Auditors

Gerry C. Boaz, CPA
Technical Analyst

Amy Brack
Greg Spradley
Editors

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Financial/compliance audits of state departments and agencies are available on-line at www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at www.comptroller.state.tn.us.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

September 14, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee State Veterans' Homes Board
345 Compton Road
Murfreesboro, Tennessee 37130

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee State Veterans' Homes Board for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The board's management has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/cj
00/069

State of Tennessee

Audit Highlights

Comptroller of the Treasury — Division of State Audit

Financial and Compliance Audit
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1999

AUDIT OBJECTIVES

The objectives of the audit were to consider the board's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

INTERNAL CONTROL FINDINGS

Accounts Receivable Practices Are Not Adequate **
The Tennessee State Veterans' Homes Board's accounts receivable balances do not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans. The estimate for uncollectible accounts is not based on actual receivables. In addition, the management company has not appropriately written off uncollectible receivable accounts (page 9).

Controls Over Fixed Assets Are Not Adequate**
Annual inventories have not been properly performed, equipment records are inadequate to integrate annual inventory results into the general ledger, a separate and distinct property officer has not been designated, and a clear capitalization policy is not in place (page 16).

Cash-Receipting Controls and Purchasing Controls Need Improvement*
Cash receipting duties are not segregated to provide good internal control. No one verifies the sequence of receipts. Receipt books used are not always prenumbered. Purchasing controls are not segregated (page 19).

Controls Over Payables Are Not Adequate
Payments were not made in a timely manner and the verification of receipt was not consistently documented (page 20).

Foundation Donations Are Not Properly Receipted Or Deposited Timely
A receipt is not consistently completed for donations to the foundation before the funds are deposited. Funds are not deposited within a reasonable time period (page 22).

* This finding is repeated from the prior audit.
** This finding is repeated from prior audits.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

“Audit Highlights” is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Financial/compliance audits of state departments and agencies are available on-line at
www.comptroller.state.tn.us/sa/reports/index.html.
For more information about the Comptroller of the Treasury, please visit our Web site at www.comptroller.state.tn.us.

Audit Report
Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1999

TABLE OF CONTENTS

TABLE OF CONTENTS (CONT.)

Tennessee State Veterans' Homes Board
For the Year Ended June 30, 1999

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee State Veterans' Homes Board. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

LEGISLATIVE HISTORY

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. The board operates two facilities – one in Murfreesboro and one in Humboldt – and has plans to build a third facility in East Tennessee. The board has the authority to employ an executive director and other employees; to incur expenses as may be necessary for the proper discharge of the board's duties; to establish policies regarding the rates for patient care in a state veterans' home; and to incur debts, borrow money, issue debt instruments, and provide for the rights of the holders of the debt instruments.

The board consists of ten members. The Commissioner of the Tennessee Department of Veterans Affairs serves *ex officio* as a voting member of the board. The remaining nine members are appointed by the Governor, three from each of the three grand divisions of the state. The Governor appoints a member of the board to serve as chairman. Each board member must be a citizen of the state and an honorably discharged veteran.

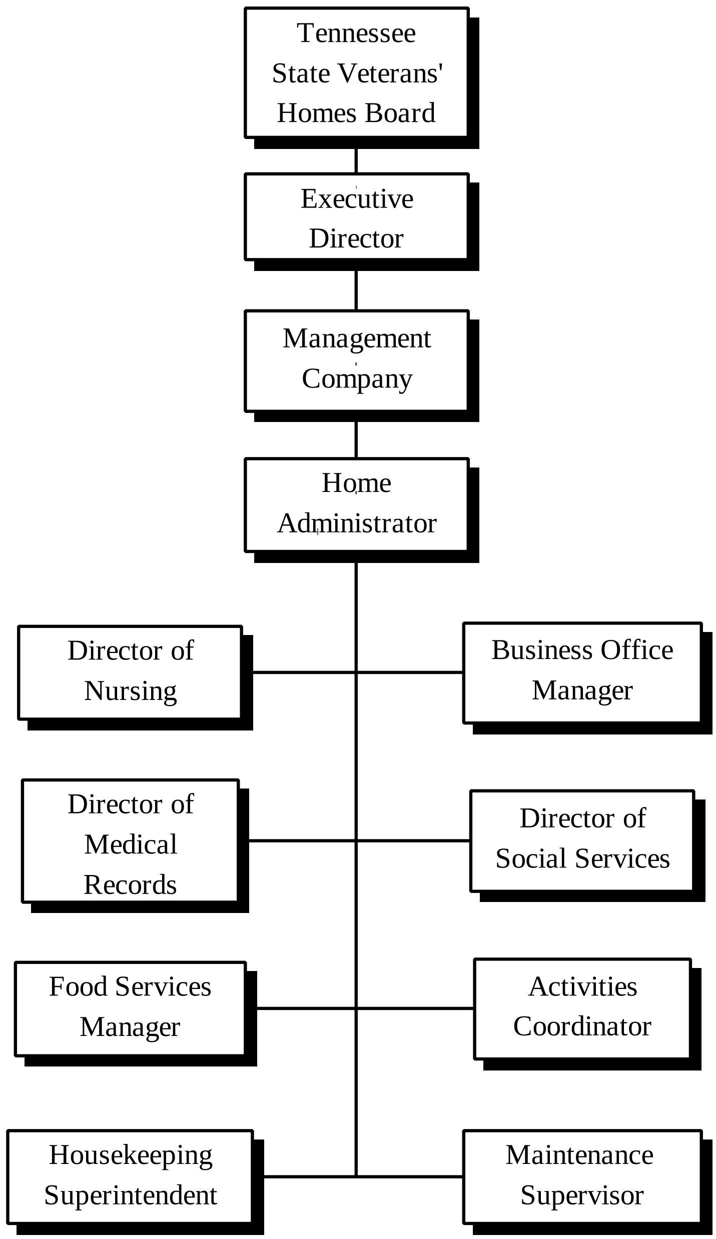
ORGANIZATION

As of November 1, 1994, the board contracted with ServiceMaster Diversified Health Services, L.P., (Diversified) to manage both the financial and clinical operations of the Murfreesboro facility as well as those of the Humboldt facility upon its opening. The Humboldt facility admitted its first resident on February 7, 1996.

Diversified employs an administrator to oversee daily operations of each facility. The administrator then hires the managerial staff including the Director of Nursing, Business Office Manager, Director of Medical Records, Director of Social Services, Food Services Manager, Activities Coordinator, Housekeeping Superintendent, Maintenance Supervisor, and all other facility employees. Although these employees are hired by the administrator from Diversified, they are employees of the board.

An organization chart is on the following page.

Tennessee State Veterans' Homes Board



AUDIT SCOPE

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The Tennessee State Veterans' Homes Board has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report.*

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the board's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The board filed its report with the Department of Audit on April 28, 2000. A follow-up of all prior audit findings was conducted as part of the current audit. The prior audit report contained findings concerning inadequate accounts receivable practices, equipment accountability, and cash-receipting controls. These findings have not been resolved and are repeated in this report.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee State Veterans' Homes Board's financial statements for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Reportable conditions, along with recommendations and management's responses, are detailed in the findings and recommendations. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the Tennessee State Veterans' Homes Board's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

June 19, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of and for the year ended June 30, 1999, and have issued our report thereon dated June 19, 2000. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the board's financial statements are free of material misstatement, we performed tests of the board's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*:

- Medicaid overpayments are not refunded promptly and certain Medicaid rate adjustments have not been properly reduced.

This instance of noncompliance is described in finding number 1 of the Findings and Recommendations section of this report.

We also noted certain other less significant instances of noncompliance that we have reported to the board's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the board's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable conditions were noted:

- Accounts receivable practices are not adequate
- Controls over fixed assets are not adequate
- Cash-receipting controls and purchasing controls need improvement
- Controls over payables are not adequate
- Foundation donations are not properly receipted and deposited timely

These conditions are described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be material weaknesses:

- Accounts receivable practices are not adequate
- Controls over fixed assets are not adequate

We also noted other matters involving the internal control over financial reporting that we have reported to the board's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee, the board of directors, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cj
00/069

Findings and Recommendations

1. <u>Accounts receivable practices are not adequate</u>

Finding

As noted in the prior two audits, the Tennessee State Veterans' Homes Board's accounts receivable balance still does not portray a complete picture of the current receivable activity or the true amount the board must attempt to collect. The board has not promptly refunded Medicaid overpayments. The management company has not properly reduced the rate adjustments for certain Medicaid-eligible veterans. The estimate for uncollectible accounts is not based on actual receivables. In addition, the management company has not appropriately written off uncollectible receivable accounts.

The board concurred with the prior finding regarding the reduced rate adjustments for certain Medicaid-eligible veterans and writing off uncollectible accounts. The board's comments indicated that the management company had analyzed all accounts receivable and adjustments were made.

The board did not concur with the prior finding regarding Medicaid overpayments. The board indicated that it requested the Governor's review of this issue. As discussed later in this finding, the board has implicitly recognized its liability to the Medicaid program through its actions. In addition, at the board's request, the Commissioner of the Department of Health previously researched the issues raised by the board and responded to the board on October 14, 1997, that the $282,062.42 was "due and payable to the TennCare [Medicaid] program." If the Governor chooses to release the board from this obligation, the state will still be responsible for refunding the federal percentage to the U.S. Department of Health and Human Services.

Background

All residents of a board facility are charged a standard rate for each day that they reside in the facility. To meet these charges, a resident may be eligible for assistance from Medicaid if the resident is both medically and financially eligible. Assistance from the Medicaid program consists of both a contractually established reduction in the standard rate (to the "Medicaid rate") and assistance payments from the U.S. Department of Health and Human Services via the Tennessee Department of Health. In assessing a resident's financial eligibility for Medicaid assistance, the resident's ability to contribute to his or her cost of care is evaluated. The resident's calculated contribution to his or her cost of care is referred to as the patient liability amount. Many Medicaid-eligible residents have limited sources of income and may have no patient liability, or the amount may be very minimal.

For example, assume the standard rate is $92 per day, and the Medicaid rate is $80 per day. The resident's account would typically be charged the standard rate of $92 and if the resident were eligible for Medicaid assistance, the account would then be reduced by $12 to equal the Medicaid rate. If the Medicaid-eligible resident has a calculated patient liability amount of $10, this amount would be collected from the resident and the Medicaid program would pay the difference of $70.

In addition, veterans are eligible for reimbursement from the U.S. Department of Veterans Affairs (VA) for each day they reside in a Tennessee Veterans' Home facility. This per diem amount is used to offset the veteran's costs before any other resources are applied. The per diem is revenue to the facility, not income to the veteran, and therefore is appropriately not considered in calculating a veteran's financial eligibility for Medicaid assistance and is not a contribution toward the calculated patient liability amount.

Medicaid overpayments are not refunded promptly

In the example above, if the VA per diem amount were $40, the resident's receivable account would be overcollected by $40 as shown below.

Activity in Receivable Account	Total	Cumulative Total
Standard rate	$92	$92
less the adjustment to reduce the standard rate to the Medicaid rate of $80	12	80
less the patient liability payment	10	70
less the Medicaid assistance payment	70	0
less the VA per diem payment	40	(40)
is equal to a credit balance (or overcollection) in the receivable account	($40)	($40)

If a veteran is eligible for Medicaid assistance, the Medicaid assistance payment to the facility must be reduced by the VA per diem amount. (Medicaid is considered the payer of last resort.) The Tennessee State Veterans' Homes Board has not promptly reduced the veteran's Medicaid assistance payment and refunded the current overpayments to Medicaid (estimated to be $1,258,200.49 at June 30, 1999), and has not repaid $282,062.42 due to the Medicaid program for overpayments occurring before 1994.

The Division of Medicaid, General Rule 1200-13-1-.04, subsection (2)(a)(1) of *Rules of the Tennessee Department of Health* states,

> If third party payment is less than the Medicaid allowable, Medicaid will pay the difference between the third party payment and the Medicaid allowable. No further claim shall be allowed against the recipient and/or the recipient's responsible party(s) for Medicaid services.

After an audit finding reported by the Comptroller's Office in the June 30, 1992, audit report, the Department of Health established a mechanism for the board to refund the excess Medicaid assistance payments received by filing a "void adjustment" after both the VA per diem and Medicaid assistance payments are collected. Although the mechanism is cumbersome (a separate void adjustment must be filed on every veteran for every month that Medicaid assistance payments are received), it appears to accomplish the objective of returning the excess funds to the Medicaid program.

The Murfreesboro facility began processing void adjustments to return overpayments to the Medicaid program in 1993. However, the void adjustment process is not completed promptly. Currently, it may take many months before the transaction is completed. According to Section 1200-13-1-.04, subsection (3), *Rules of the Tennessee Department of Health*, "Providers receiving third party payments following Medicaid payment shall notify and refund Medicaid within 60 days of receipt of the third party payment. The refund to Medicaid shall be the lesser of the third party or Medicaid payment."

When the Humboldt facility opened in February 1996, it was tentatively instructed by the Department of Health not to implement the void adjustment process at that time. Subsequently, the facility received a letter from the Commissioner of the Department of Health dated October 14, 1997, stating,

> … the procedures currently in place at the Murfreesboro facility should now be used by the Humboldt facility each month in order to minimize an outstanding liability in the future. All documentation for residents at the Humboldt facility since its opening should now be sent to the TennCare Bureau along with the corresponding payments.

The facility did not comply with this instruction until February 1998. At that time, the Executive Director instructed the facility to begin a monthly repayment process by submitting the current month's void adjustments and two to three of the oldest months' void adjustments. This procedure was to continue until the entire amount was repaid. The facility prepared the specified void adjustments in February but subsequently failed to systematically follow up with additional void adjustments. In February 1999, the facility began preparing void adjustments on a monthly basis. When the VA per diem and the Medicaid assistance payments have both been received and the void adjustments have not been processed, the veteran's receivable account has been overcollected and therefore has a negative or "credit" balance. The estimated credit balance at June 30, 1999, was $982,848.81 and $275,351.88 for the Humboldt and Murfreesboro facilities, respectively.

Before the implementation of the void adjustment process, the Department of Health did not have an established mechanism for the board to return excess Medicaid funds. On December 25, 1992, and April 16, 1993, $178,856.42, and $23,109.57, respectively, were withheld from Medicaid payments to the board. These amounts were deductions from the total amount due to the board and were not attributed to specific residents. Evidently, these amounts were withheld based on communication between the Department of Health and the board's Executive Director at that time. The amount due to the Medicaid program attributable to the dates of service between the opening of the Murfreesboro facility in 1991 and the inception of the void adjustment process in 1993, net of the two repayments mentioned above, is $282,062.42. This amount is recorded on the board's financial statements as a payable to the Department of Health, and the auditors have indicated to management in the past several audits that repayment to the department should be addressed.

Although the board has implicitly recognized its liability to the Medicaid program through its actions, beginning with the two repayments mentioned above, the board has questioned whether these monies are actually due back to the Medicaid program. A meeting was held with Department of Health staff, Veterans Affairs staff, Comptroller's staff, and representatives from the Tennessee State Veterans' Homes Board. Concerns were heard from the board members, and the Department of Health staff agreed to research the possibility of regulations that might eliminate the balance due to the Medicaid program.

After researching the issues raised by the board, the Commissioner of the Department of Health responded to the board on October 14, 1997. The Commissioner cited Section 4055.80 of the *Medicare and Medicaid Guide* as quoted above and requested "payment of the $282,062.42, which has been determined due and payable to the TennCare [Medicaid] program." This repayment has not yet been made.

Certain Medicaid rate adjustments have not been properly reduced

Although most Medicaid-eligible veterans have a minimal patient liability amount, some have a more substantial patient liability amount. When the VA per diem amount is combined with a more substantial patient liability amount, the total may exceed the Medicaid rate. If the Medicaid rate is exceeded, the Medicaid program is appropriately not billed. Furthermore, when the Medicaid rate is exceeded, the resident's accounts receivable balance becomes negative, effectively reflecting an overpayment in the resident's account, when there is no overpayment due to the resident.

In the example cited previously, if the Medicaid-eligible veteran has a patient liability amount of $48 instead of $10, the activity in his receivable account is as follows:

Activity in Receivable Account	Total	Cumulative Total
Standard rate	$92	$92
less the adjustment to reduce the standard rate to the Medicaid rate of $80	12	80
less the patient liability payment	48	32
less the VA per diem payment	40	(8)
(the Medicaid program is not billed for an assistance payment)	0	0
is equal to a credit balance (or overcollection) in the receivable account	($8)	($8)

The VA per diem amount is a fixed amount for all veterans. The patient liability amount is established in the Medicaid eligibility process and represents an amount that the patient can reasonably be expected to pay. Therefore, the only amount that can be reduced to prevent the "overpayment" is the adjustment that reduces the standard rate to the Medicaid rate. The adjustment should equal the difference between the standard rate, the patient liability amount, and the VA per diem amount, leaving the resident's account with a zero balance. In the example above, the adjustment should be reduced to $4 instead of $12. Because this calculation could be different for each veteran resident with a more substantial patient liability amount, the management company's accounts receivable system cannot automatically perform the calculation and make the reduction to the adjustment amount. The management company has not made the necessary manual adjustments to correct these overpayments.

Allowance for doubtful accounts is not based on actual receivables

The management company does not use an analysis of accounts receivable when establishing the amount to be included in the allowance for doubtful accounts. The allowance is a set amount per month based on an estimate by the management company at the end of the fiscal year. An analysis of the accounts receivable is, however, performed monthly at the facility but apparently not used by the management company to adjust the financial reports. An audit adjustment was made increasing the management company's allowance by $234,385.31 to better reflect the estimate of bad debts.

Uncollectible accounts have not been written off

The management company still has not sufficiently analyzed and adjusted the board's accounts receivable subsidiary records for uncollectible accounts. Accounts with old outstanding balances that appear to be uncollectible have not been submitted to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury for write-off approval.

Conclusion

Without promptly refunding Medicaid overpayments recorded as payments on behalf of the residents and without properly reducing certain Medicaid rate adjustments to the residents' accounts, the residents' subsidiary accounts have an inappropriate negative or "credit" balance incorrectly reflecting that refunds are due to those residents. As the credit balances grow in number and amount, and old, outstanding receivable balances are not evaluated and written off if uncollectible, the total accounts receivable balance becomes more distorted and financial decision-making or monitoring may be affected. Decision-making may also be affected if the allowance for doubtful accounts is not based on actual year-end accounts receivable balances. Credit balances are included in total accounts receivable, causing the receivable balance on the board's financial statements to appear to be lower than the amount the board actually must attempt to collect.

Because the board has contracted with a management company, ServiceMaster Diversified Health Services, L. P., since November 1, 1994, to manage and supervise the day-to-day operations of the facilities, the resolution of these discrepancies will be the management company's responsibility. Resolution will include dedicating time and attention for review and analysis of the previous activity in the residents' subsidiary accounts. Because of the unique nature of the operations and funding structure within a veterans' facility, a standardized computer accounting system may not be able to accommodate all types of accounts receivable transactions. Additional effort may be necessary to manually process certain accounts receivable transactions.

Recommendation

The management company should carefully evaluate the accounts receivable practices. Any necessary policies and procedures should immediately be developed, documented, and implemented. The policies and procedures should be adequate to ensure that void adjustments are routinely processed to refund overpayments of Medicaid assistance within 60 days of receiving the VA per diem. The policies and procedures should also establish adequate accounting practices to prevent the recording of "overpayments" of accounts receivable from excessive Medicaid rate adjustments for veteran residents with substantial patient liability amounts. The management company should carefully supervise operations to ensure compliance with the policies and procedures.

The Tennessee State Veterans' Homes Board should immediately direct the management company to refund the $282,062.42 due to the Medicaid program for overpayments occurring before the void adjustment process began. In addition, the management company should ensure that outstanding void adjustments for overpayments are processed immediately to refund any VA per diem payments that were received more than 60 days ago.

The management company should analyze the previous activity in all subsidiary accounts and make appropriate adjustments. Adjustments should also be made to the allowance account to reflect an estimate of bad debts based on aged accounts receivable listings. Accounts that are deemed uncollectible should be submitted to the Commissioner of the Department of Finance and Administration and the Comptroller of the Treasury for approval for write-off. If additional manual processing of certain transactions is required, the management company should ensure that sufficient staff is available and adequately trained to perform these functions.

The Tennessee State Veterans' Homes Board should take appropriate measures to monitor the actions of the management company, determine whether sufficient attention has been directed toward resolving these discrepancies, and take appropriate action if these conditions do not improve.

Management's Comment

We concur with the finding for the period indicated in the report, except for the issue of repayment of $282,062.42. This finding is virtually identical to the 1998 audit report. We assert that our responses for the 1998 audit are still appropriate and accurate for the same problems detailed in this current audit. Our current policy regarding the repayment of Medicaid overpayments is in place and will prevent the same problem from recurring in the future. The repayment of overpayment occurring before 1994 has been completed in Murfreesboro, and it is proceeding on schedule at the Humboldt location. We are making all possible efforts to comply with the recommendations of the audit report concerning doubtful accounts. Uncollectible accounts are being analyzed and will be presented to the Executive Director for submission to the Department of Finance and Administration and the Comptroller's office for approval for write-off. There are other pending actions, such as the assignment of accounts to an approved collection agency and the adoption of a collection procedure that will expedite the resolution of some of the bad debt issues. We have agreed with the recommendation of the audit team for an audit adjustment to better reflect the estimate of bad debts.

Auditor's Comment

Although the board does not concur that the Medicaid overpayments resulting from the VA per diem payments should be refunded to the Medicaid programs, as discussed in the finding, the board has implicitly recognized this liability since December 25, 1992, when the first funds were withheld from a Medicaid payment to the board. The board has continued to recognize this liability by routinely processing void adjustments.

It appears that the only amount truly in contention is the $282,062.42 due to the Medicaid program for the overpayments occurring before the void adjustment process began. At the board's request, the Commissioner of the Department of Health researched the issues raised by the board and responded to the board on October 14, 1997, that the $282,062.42 was "due and payable to the TennCare [Medicaid] program." The board requested that the Governor reverse the Department of Health's position on February 5, 1999. The Governor has not yet chosen to respond to the board's request. If the Governor chooses to release the board from this obligation the state will still be responsible for refunding the federal percentage to the U.S. Department of Health and Human Services.

2. <u>Controls over fixed assets are not adequate</u>

Finding

Controls over fixed assets are weak. Annual inventories have not been properly performed and documented, equipment records are inadequate, and a separate and distinct property officer has not been designated. Also, there does not appear to be a clear capitalization policy. A finding was included in the past two audits indicating that the board needed to strengthen its accountability for equipment.

Annual inventories have not been properly performed

A June 1, 1999, memo from the Executive Director to the facilities' administrators stated that a "Physical inventory of all supplies, equipment and furnishings must be compiled as of June 30, 1999." Evidence of the equipment and furnishings portion of this inventory could not be located at the management company, and little documentation of the inventories was found at the facilities. An inventory was performed in Murfreesboro, and the results were not used to verify the amounts included in the financial statements. At the Humboldt facility, records could not be produced showing that an inventory of equipment had been completed during the audit period; thus, the amounts included in the financial statements were not verified.

Tennessee State Veterans' Homes Board policy entitled "Property, Furniture & Equipment" states,

> An inventory of property, furniture and equipment will be conducted annually. Any differences noted between book records and the physical inspection will be investigated to determine the variance. Any material difference noted will immediately be brought to the administrator's attention.

An annual inventory should have identified a donated asset which had not been reported to the management company and therefore was not included in the financial statements. A popcorn machine purchased by the foundation for $599 was donated to the Murfreesboro facility. An audit adjustment was made to the financial statements to reflect both the asset and the related depreciation. Also, an annual inventory may have identified lost, stolen, or surplused items. Until a complete inventory is performed, it is not possible to determine the number of lost or stolen items.

Fixed asset records are inadequate

The current recordkeeping system does not allow for a reconciliation between the physical inventory records produced at the facility and the financial records maintained by the management company.

The inventory count sheets viewed only included the description, location, and tag number. Descriptions were fairly vague (i.e., bed, wheelchair, chair), locations indicated where the item happened to be that particular day, and tag numbers were included if the tag was not missing. Thirty-eight of 228 items tested did not have property tags.

The fixed asset records maintained at the management company include a description, asset number, cost, acquisition date, and depreciation. The description is vague, and the asset number is a randomly assigned number that is not the same as the tag number. The only shared attribute between the inventory count sheets and the fixed asset records is the description. Because of the generic nature of the descriptions, reconciling the two listings would include a great deal of guesswork.

Testwork was performed to observe several equipment items listed on the fixed asset records. Because of the problems noted, it was impossible to positively identify any of the items that were sought; however, items that met the description listed were identified, with only the following minor exceptions. At the Humboldt facility, 2 of 120 beds could not be located, and 44 wheelchairs were counted when the listing included only 40. At the Murfreesboro facility, 1 of 14 shower chairs could not be located.

Also, it was noted that there had not been any equipment removed from the Humboldt listing in the past two years and from the Murfreesboro listing during the audit period. Therefore, the listing could have equipment listed that is no longer at the facilities due to theft, cannibalization, or surplus.

A property officer has not been designated

Accountability would be improved through designation of a property officer. The facility administrators are currently considered to be the property officers, by default. This is not an appropriate segregation of duties, since administrators are also involved in the purchasing process.

During equipment observation at Murfreesboro and Humboldt, it was also noted that several items had missing tags. Additionally, the storage spaces that were viewed at Murfreesboro were full of unused equipment which had not been sold or surplused. A property officer would normally be responsible for these duties.

Capitalization policy should be clarified

A capitalization policy should be drafted and consistently followed. The policies and procedures manual states two different capitalization policies ($500.00 and a useful life of two years; $100.00 and one year). When the new policy was implemented, many items that no longer met the criteria were still left on the equipment listing. Also, some small dollar equipment items are grouped together for capitalization purposes.

Conclusion

Without conducting an annual physical inventory, the misstatement of fixed assets, specifically furniture and equipment, because of loss or theft could go unnoticed. Also, known losses and additions or donations may not be reported to the management company, precluding necessary adjustments to the furniture and equipment account. Misstatements could also occur because the only shared attribute between the assets and the management company records is the description. Specific equipment items cannot be easily located or verified through the inventory if the description is the only identifying item that is included in the management company records. A lack of segregation of duties between the employees responsible for purchasing and the property officer could result in misuse of board assets. The absence of a designated property officer at each facility allows the equipment problems mentioned above to continue without clear accountability. The capitalization policy should be clarified to ensure consistency between the facilities, in regard to grouping items and the dollar threshold.

Recommendation

The management company should require the physical inventory on property, furniture, and equipment to be submitted before the preparation of the June 30 financial statements, and it should not close the year-end books until the inventory is complete. The results of the physical inventory should be compared to the depreciation schedules to identify items which are not on both lists. When such reconciling items are identified, the management company should require an explanation and the appropriate paperwork from the administrator, and the controller should post the proper journal entries to reconcile the ledger to the physical inventory. Procedures should be established to promptly communicate to the management company any additions, deletions, and relocations that have occurred, including donated items. A new form of recordkeeping should be established which would allow positive identification of each asset included on the inventory to each asset included in the financial records. The facility records should include the tag number, description, location, serial number (if applicable), and possibly the asset number to tie facility records to the records of the management company. A separate property officer, without purchasing responsibilities, should be designated and held accountable for keeping equipment records current, keeping the items tagged, and ensuring that the annual inventory is performed. The capitalization policy for equipment should be reviewed and clearly communicated to the appropriate personnel, and the records should be adjusted as necessary.

Management's Comment

We concur with the finding for the period indicated in the report. An annual inventory has now been completed at both facilities. Our response to the 1998 audit still stands and addresses the recommendations presented in the 1999 audit report. We agree that the capitalization policy should be clarified. Our recommendation is to remove the $100/1 year category, and so long as there are no compelling reimbursement reasons to do otherwise, to adopt the $500/2 years as the sole criteria for future uses effective 7/1/00.

3. Cash-receipting controls and purchasing controls need improvement

Finding

As noted in the prior audit, the Tennessee State Veterans' Homes Board facilities do not have adequate controls over cash receipting procedures. In addition, the facilities do not have adequate segregation of duties relating to purchasing. The facilities receive room and board payments and resident trust fund additions by mail and in person. Medicare and Medicaid payments are also received by mail. Veterans Affairs payments are received by direct deposit into the depository bank accounts.

The board concurred with the prior finding. That finding involved the receptionist opening the mail, writing the receipt, preparing the deposit, and preparing the cash transmittal. It is from the cash transmittal form that the management company posts the room and board receipts into the accounting records. The receptionist no longer prepares the deposit or the cash transmittal. However, cash receipting duties are still not adequately segregated at either facility because no one ensures the dollar value of receipts equals the dollar value of deposits, no one verifies the sequence of the receipts, and no one compares the receipt books to the information that has been posted to the cash transmittal form. Also, for the last five months during the fiscal year, cash receipts were not prenumbered. Instead, receipt numbers were handwritten by the receptionist.

Additional segregation problems exist over resident trust fund account receipts at both the Murfreesboro and Humboldt facilities. The payroll clerk makes the deposit, reconciles the bank statement, and posts the resident trust information to the resident's account. The receipts are neither reconciled to the actual deposit nor to the amount posted to the resident's account.

The controls over purchasing are not adequate. The accounts payable, ordering, receiving and inspecting, and cash receipting duties are not adequately segregated. The receptionist prepares accounts payable, orders goods, receives and inspects the goods, and opens the mail and prepares cash receipts.

Good internal control requires duties to be adequately segregated. Segregation of duties is essential in fraud detection and aids in prevention of possible errors and misappropriation of funds. The use of prenumbered receipts in conjunction with comparisons between receipts and deposits helps to ensure accountability for all receipts.

Recommendation

Management should ensure all cash-receipting duties are adequately segregated. The business office manager should compare the funds received from the receptionist to the receipt book and account for the sequence of the prenumbered receipts. After deposits are made, the receptionist should compare the deposits with the receipts. The administrative assistant, or some other independent employee, should perform the resident trust fund bank reconciliation. An employee other than the receptionists should be assigned the duties related to accounts payable.

Management's Comment

We concur with the finding for the period indicated. Our response to the finding of the 1998 audit is still applicable. A new policy and procedure has been developed to address the segregation of duties recommended by the audit report. We do not agree that the receptionist should not have accounts payable duties. While the receptionist may order, receive and inspect goods in the administrative area, department managers in their respective areas also carry out the duties described in the audit report

Auditor's Comment

Although the department managers also carry out the duties described in the audit report, the receptionist is still authorized to carry out accounts payable duties. Due to the receptionist's cash receipting duties, this is still an inadequate segregation of duties. By allowing the receptionist to both receive incoming payments and to order goods, management allows the possibility of the receptionist acquiring cash by cancelling orders processed and asking that the company return the payment directly to the receptionist.

4. Controls over payables are not adequate

Finding

Controls over payables are not adequate. Payments were not made in a timely manner and the verification of receipt was not consistently documented.

Payments were not made in a timely manner

Invoices from vendors were not paid in a timely manner. Review of the Murfreesboro facility's "Accounts Payable Open Item Report" at June 30, 1999, revealed that 60 of 510 open accounts (12%) included amounts that remained unpaid 45 days or more after the invoice date.

Also, it was noted that payables throughout the fiscal year were paid late. Seven of 30 Murfreesboro payments tested (23%) had been open from 45 to 85 days.

Section B (7) of the contract between the board and the management company, ServiceMaster Diversified Health Services, L.P., indicates that the management company is responsible for "Supervising the finances of the Homes to assure that all debts, liabilities, and other obligations of the facilities are paid within forty-five (45) days of the receipt subject to availability of funds." If invoices are not paid timely, the board could lose purchase discounts, relations with vendors and contractors could deteriorate, and late fees could be assessed.

Verification of receipt was not documented

Seven of 16 vouchers tested for evidence of receipt (44%) did not have an employee's initials or signature and date. According to management, receipt will be documented by the department head or other appropriate personnel signing and dating the invoice. If the receipt of goods is not documented, the facility may not receive the proper quantity or the proper item, or it may pay for goods not received.

Recommendation

The Administrator at each facility should ensure that the management company pays invoices within 45 days of receipt as required by the contract. Also, the Administrator should ensure that verification of receipt is documented.

Management's Comment

We concur with the finding for the period indicated. Our efforts continue in this area both to improve the timely processing of invoices for payment, and to provide the proper verification of receipt. There are some exceptions that have been agreed to that would either preclude or prevent compliance with 45 day standard called for in the contract.

- Negotiated terms may not require payment within 45 days.
- Circumstances beyond management company control may prevent compliance such as unresolved disputes with vendors.
- It is possible, but not likely, that funds will not always be available when needed to ensure timely payment.

Auditor's Comment

Management indicated that a reasonable exception to the 45 day standard is "that funds will not always be available when needed to ensure timely payment." Management should be accountable for the proper planning and judgement in purchasing decisions to avoid insufficient cash flows with which to meet current obligations in a timely manner. This should not be considered a suitable exception.

5. <u>Foundation donations are not properly receipted or deposited timely</u>

Finding

Twelve of 25 donations to the Veterans' Homes foundation tested (48%) were not deposited timely or receipted properly. According to auditee personnel, donations are to be forwarded to the Murfreesboro facility, where a receipt is to be prepared, a copy is to be made of the donation, and the funds are to be deposited. The foundation does not have a policy identifying the maximum amount of time a donation should be held before deposit. Since the funds may not always be received at Murfreesboro, seven days from donation to deposit was considered reasonable for purposes of audit testwork. Six of the donations were not deposited within seven days. The deposit date ranged from 8 to 24 days after the receipt date. Five of the donations had receipts dated after the deposit date. One deposit was not receipted.

By receipting all funds and depositing the funds as soon as possible, management reduces the opportunity for those funds to be misappropriated.

Recommendation

The Executive Director should encourage the individuals who receive donations to forward them to a Veterans' Home facility immediately upon receipt. When the facility receives the donation, the Administrative Assistant or some other designated employee should immediately prepare a receipt. The donations should then be deposited promptly by the payroll clerk.

Management's Comment

We concur. Donations are now forwarded to the Home in Murfreesboro, receipted by the Assistant to the Executive Director and deposited by the Payroll Clerk. This procedure will correct deposits being made before receipts are written and will allow deposits to be made in a timely manner (within seven (7) days of the receipt).

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 741-3697
FAX (615) 532-2765

Independent Auditor's Report

June 19, 2000

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the Tennessee State Veterans' Homes Board, a component unit of the State of Tennessee, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenses, and changes in equity and cash flows for the years then ended. These financial statements are the responsibility of the board. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee State Veterans' Homes Board as of June 30, 1999, and June 30, 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Schedule of Pension Funding Progress, on page 40 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting

Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying financial information, on pages 41 through 45, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements, taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2000, on our consideration of the board's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/cj

Exhibit A

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999	June 30, 1998
ASSETS		
Current assets:		
Cash (Note 2)	$ 1,257,394.83	$ 868,036.70
Investment (Note 2)	25,076.78	25,076.78
Resident accounts receivable:		
Private	2,376,213.94	1,592,650.45
U.S. Department of Veterans Affairs	372,824.00	397,956.67
Allowance for doubtful accounts	(1,062,027.17)	(517,264.49)
Medicare cost settlement receivable	274,267.56	707,674.56
Medicaid cost settlement receivable	6,270.00	26,209.00
Inventories	48,035.94	58,041.07
Prepaid items	17,664.51	21,070.77
Total current assets	3,315,720.39	3,179,451.51
Restricted assets (Note 4):		
Cash (Note 2)	1,665,696.36	1,275,397.53
Total restricted assets	1,665,696.36	1,275,397.53
Other assets:		
Deposit with management company	10,000.00	10,000.00
Unamortized bond issuance costs	124,065.35	130,382.27
Unamortized preopening expenses	52,974.94	86,430.94
Total other assets	187,040.29	226,813.21
Fixed assets:		
Land	194,244.00	194,244.00
Buildings and improvements	10,878,743.25	10,801,398.55
Accumulated depreciation - buildings and improvements	(1,452,095.00)	(1,165,191.74)
Furniture and equipment	1,614,880.93	1,501,608.66
Accumulated depreciation - furniture and equipment	(744,752.79)	(598,350.17)
Construction in progress	-	64,007.16
Total fixed assets	10,491,020.39	10,797,716.46
Total assets	$ 15,659,477.43	$ 15,479,378.71

Exhibit A (Cont.)

TENNESSEE STATE VETERANS' HOMES BOARD
BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999	June 30, 1998
LIABILITIES AND EQUITY		
Liabilities:		
Current liabilities:		
Accounts payable and accruals	$ 1,307,793.95	$ 1,283,243.51
Due to primary government (Note 3)	950,278.63	508,618.91
Amounts advanced by management company	103,533.51	97,636.22
Medicaid cost settlement payable	-	344.00
Amounts held in custody for others	79,204.47	96,382.95
Medicaid current financing	148,876.10	75,356.80
Advance from primary government (Note 6)	10,000.00	10,000.00
Total current liabilities	2,599,686.66	2,071,582.39
Current liabilities payable from restricted assets:		
Bonds payable (Note 5)	155,000.00	150,000.00
Total current liabilities payable from restricted assets	155,000.00	150,000.00
Noncurrent liabilities:		
Bonds payable, net of unamortized discount (Note 5)	4,884,814.32	5,037,284.36
Advance from primary government (Note 6)	170,000.00	180,000.00
Total noncurrent liabilities	5,054,814.32	5,217,284.36
Total liabilities	7,809,500.98	7,438,866.75
Equity:		
Contributed capital (Note 7)	9,208,718.84	9,208,718.84
Retained earnings:		
Reserved for foundation	64,188.82	60,661.40
Unreserved	(1,422,931.21)	(1,228,868.28)
Total retained earnings	(1,358,742.39)	(1,168,206.88)
Total equity	7,849,976.45	8,040,511.96
Total liabilities and equity	$ 15,659,477.43	$ 15,479,378.71

The notes to the financial statements are an integral part of this statement.

Exhibit B

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	For the Year Ended June 30, 1999	For the Year Ended June 30, 1998
Operating revenue:		
Resident service revenue less contractual adjustments of $1,176,243.79 for 1999 and $2,258,249.92 for 1998	$ 9,837,724.66	$ 9,706,714.43
Total operating revenue	9,837,724.66	9,706,714.43
Operating expenses:		
Administrative and general	1,752,889.22	1,716,137.66
Nursing services	3,430,927.48	2,911,597.34
Central services	343,796.48	303,926.39
Ancillary departments	1,115,176.90	1,515,843.24
Dietary	845,256.33	757,210.90
Activities	132,090.90	110,039.29
Social services	108,736.17	85,720.29
Housekeeping services	358,769.77	312,985.99
Laundry and linens	183,110.64	153,867.92
Plant operations and maintenance	505,092.44	459,459.78
Depreciation	433,305.88	419,159.02
Amortization of preopening expenses	33,456.00	33,456.00
Bad debt expense	524,619.64	392,630.58
Other operating expenses	2,620.00	1,021.00
Total operating expenses	9,769,847.85	9,173,055.40
Operating income	67,876.81	533,659.03
Nonoperating revenues (expenses):		
Interest revenue	101,739.28	68,621.63
Miscellaneous revenue	20,654.60	36,073.78
Interest expense	(356,918.96)	(367,567.35)
Amortization of bond issuance costs	(6,316.92)	(6,316.92)
Cable television expense	(11,132.13)	(10,081.81)
Land improvement expense	-	(10,970.00)
Building improvement expense	-	(6,551.00)
Miscellaneous expense	(6,438.19)	(1,598.10)
Total nonoperating revenues (expenses)	(258,412.32)	(298,389.77)
Net income (loss)	(190,535.51)	235,269.26
Other changes in equity:		
Contributed capital (Note 7)	-	49,788.44
Net increase (decrease) in equity	(190,535.51)	285,057.70
Equity, July 1	8,040,511.96	7,755,454.26
Equity, June 30	$ 7,849,976.45	$ 8,040,511.96

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	For the Year Ended June 30, 1999	For the Year Ended June 30, 1998
Cash flows from operating activities:		
Operating income	$ 67,876.81	$ 533,659.03
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	466,761.88	452,615.02
Miscellaneous nonoperating revenues	20,654.60	18,476.00
Miscellaneous nonoperating expenses	(18,169.32)	(29,200.91)
Changes in assets and liabilities:		
(Increase) in resident accounts receivable - private	(783,563.49)	(677,889.34)
Decrease in resident accounts receivable - U.S. Department of Veterans Affairs	25,132.67	56,589.45
Decrease in resident accounts receivable - primary government	15,720.71	108,964.70
Increase in allowance for doubtful accounts	544,762.68	398,355.71
(Increase) decrease in Medicare cost settlement receivable	433,407.00	(195,977.20)
Decrease in Medicaid cost settlement receivable	19,939.00	10,278.00
(Increase) decrease in inventories	10,005.13	(13,228.13)
(Increase) decrease in prepaid items	3,406.26	(13,135.78)
Increase in accounts payable and accruals	29,533.29	56,585.05
Increase in due to primary government	425,939.01	180,732.29
(Decrease) in due to U.S. Department of Veterans Affairs	-	(5,072.48)
Increase in amounts advanced by management company	5,897.29	95,144.50
(Decrease) in Medicaid cost settlement payable	(344.00)	-
Increase (decrease) in amounts held in custody for others	(17,178.48)	10,781.61
Increase (decrease) in Medicaid current financing	73,519.30	(829.64)
Total adjustments	1,255,423.53	453,188.85
Net cash provided by operating activities	1,323,300.34	986,847.88
Cash flows from noncapital financing activities:		
Principal paid on advance from state	(10,000.00)	(10,000.00)
Net cash used for noncapital financing activities	(10,000.00)	(10,000.00)
Cash flows from capital and capital-related financing activities:		
Contributed capital	-	5,196.44
Purchase of fixed assets	(126,010.81)	(117,483.23)
Principal paid on bonds	(150,000.00)	(120,000.00)
Interest paid on bonds	(359,371.85)	(366,921.10)
Net cash used for capital and capital-related financing activities	(635,382.66)	(599,207.89)
Cash flows from investing activities:		
Interest received	101,739.28	68,621.63
Net cash provided by investing activities	101,739.28	68,621.63

TENNESSEE STATE VETERANS' HOMES BOARD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	For the Year Ended June 30, 1999	For the Year Ended June 30, 1998
Net increase in cash	779,656.96	446,261.62
Cash, July 1	2,143,434.23	1,697,172.61
Cash, June 30	$ 2,923,091.19	$ 2,143,434.23
Noncash investing, capital, and financing activities:		
Increase in value of investment	$ -	$ 76.78
Donated equipment and improvements	-	62,113.00
Total noncash investing, capital, and financing activities	$ -	$ 62,189.78

The notes to the financial statements are an integral part of this statement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Tennessee State Veterans' Homes Board was established in 1988 under the provisions of Title 58, Chapter 7, *Tennessee Code Annotated*. This statute authorizes the creation of public homes for veterans throughout the state to provide support and care for honorably discharged veterans who served in the United States armed forces. At June 30, 1999, two facilities, located in Murfreesboro and Humboldt, were operating. The ten-member board has appointed an executive director and contracted with a management company to carry out its operations.

The Tennessee State Veterans' Homes Board is a component unit of the State of Tennessee (the primary government). Although it is a separate legal entity, the board is appointed by the Governor, and its budget is approved by the state. In addition, the issuance of bonds must be approved by the State Funding Board. The board is discretely presented in the *Tennessee Comprehensive Annual Financial Report.*

The Tennessee Veterans Home Foundation, Inc., was established by the Tennessee State Veterans' Homes Board to receive donations for the benefit of the facilities' residents. The foundation Board of Directors has 11 members, 6 of which are appointed by the Tennessee State Veterans' Homes Board. The board was developed solely to benefit the residents of Tennessee State Veterans' Homes. Due to this relationship, the foundation is included in the board's financial statements.

B. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The Tennessee State Veterans' Homes Board follows applicable GASB pronouncements, as well as applicable private-sector pronouncements issued on or before November 30, 1989.

C. Measurement Focus and Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under the accrual basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

D. Investment

The investment is a certificate of deposit which is stated at cost.

E. Inventories

Inventories of medical, dietary, and housekeeping supplies are determined by physical count and are valued at replacement cost. This valuation is not materially different from historical cost.

F. Restricted Assets

Certain assets of the Tennessee State Veterans' Homes Board are classified as restricted assets because their use is restricted by applicable bond covenants.

G. Bond Discounts and Issuance Costs

Bond discounts and issuance costs are deferred and amortized over the life of the bonds using the straight-line method. The results of this method are not materially different from those of the effective interest method. Bonds payable are reported net of unamortized bond discount.

H. Fixed Assets and Depreciation

Fixed assets are recorded at cost and are depreciated on a straight-line basis over the estimated useful lives of the assets. Donated fixed assets are stated at fair value at the date of donation. The board's policy is to capitalize interest expense incurred during the construction of assets.

NOTE 2. DEPOSITS

The board's bank accounts are insured by the FDIC or are in financial institutions that participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

The board also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report.*

NOTE 3. DUE TO PRIMARY GOVERNMENT

	June 30, 1999
Due To:	
Department of Health–Medicaid current services less void adjustments	$ 626,134.42
Department of Health–Medicaid overpayments occurring before 1994	282,062.42
Department of the Treasury–retirement contributions	8,430.37
Department of the Treasury–Claims Award Fund	27,600.00
Department of Employment Security–unemployment taxes	6,051.42
Total due to primary government	$ 950,278.63

	June 30, 1998
Due To:	
Department of Health–Medicaid current services less void adjustments	$ 185,202.99
Department of Health–Medicaid overpayments occurring before 1994	282,062.42
Department of Health–bed tax	26,000.00
Department of the Treasury–retirement contributions	9,590.63
Department of Employment Security–unemployment taxes	5,762.87
Total due to primary government	$ 508,618.91

The amount Due to Primary Government, Department of Health—Medicaid current services less void adjustments, includes both the receivable for amounts collectible from Medicaid for current services, and a payable to Medicaid for void adjustments that may be related to previous services. At June 30, 1999, the receivable from Medicaid is $632,066.07, and the estimated payable to Medicaid for void adjustments is $1,258,200.49. At June 30, 1998, the receivable was $774,319.54, and the estimated payable for void adjustments was $959,522.53.

The amount Due to Primary Government, Department of Health—Medicaid overpayments occurring before 1994 consists of $282,062.42 payable for Medicaid overpayments made prior to the implementation of the void adjustment process.

NOTE 4. RESTRICTED ASSETS

The balances of the board's restricted asset accounts are as follows:

	June 30, 1999	June 30, 1998
Cash in depository account	$ 231,852.98	$ 43,146.57
Revenue bond revenue account	263,993.49	183,232.11
Revenue bond debt service account	383,467.73	400,790.23
Revenue bond debt service reserve account	513,228.62	513,228.62
Revenue bond repair and replacement account	273,153.54	135,000.00
	$1,665,696.36	$1,275,397.53

NOTE 5. BONDS PAYABLE

Bonds payable consisted of the following:

	June 30, 1999	June 30, 1998
Revenue bonds, Series 1989, 6.3% to 7.5%, due from 1999 to final maturity in 2014 (net of unamortized discount of $30,042.81 for 1999 and $32,102.85 for 1998)	$1,999,957.19	$2,072.897.15
Revenue bonds, Series 1994, 4.75% to 6.75% due from 1999 to final maturity in 2021 (net of unamortized discount of $10,142.87 for 1999 and $10,612.79 for 1998)	3,039,857.13	3,114,387.21
Total bonds payable	$5,039,814.32	$5,187,284.36

Debt-service requirements to maturity of the bonds payable at June 30, 1999, are as follows:

For the Year(s) Ended June 30	Principal	Interest	Total
2000	$ 155,000.00	$ 350,172.50	$ 505,172.50
2001	160,000.00	340,442.50	500,442.50
2002	165,000.00	330,122.50	495,122.50
2003	170,000.00	319,187.50	489,187.50
2004	180,000.00	307,807.50	487,807.50
2005-2021		2,594,400.00	6,844,400.00
	4,250,000.00		
	$5,080,000.00	$4,242,132.50	$9,322,132.50

NOTE 6. ADVANCE FROM PRIMARY GOVERNMENT

The board received a $200,000 advance from the primary government to be repaid from excess revenues from the operations of the Murfreesboro facility. No interest is accrued. Payments of $10,000 are made yearly.

NOTE 7. CONTRIBUTED CAPITAL

Contributed capital represents equity acquired through capital grants and capital contributions. The U.S. Department of Veteran's Affairs has provided grant assistance for constructing and equipping the Humboldt and Murfreesboro facilities.

All capital contributed for the Humboldt facility was received prior to July 1, 1998. The total grant contribution from the U.S. Department of Veteran's Affairs was $4,873,293.76. In addition, the board received $870,162.70 in appropriations and a $44,592.00 vehicle from the State of Tennessee, and the City of Humboldt donated land valued at $160,544.00. Total contributed capital for the Humboldt facility is $5,948,592.46.

All capital contributed for the Murfreesboro facility was received prior to July 1, 1994. The total grant contribution from the U.S. Department of Veteran's Affairs was $3,226,426.38. In addition, the U.S. Department of Veteran's Affairs donated land valued at $33,700.00 for the Murfreesboro facility. Total contributed capital for the Murfreesboro facility is $3,260,126.38.

NOTE 8. DEFINED BENEFIT PENSION PLAN

A. Plan Description

Employees of Tennessee State Veterans' Homes Board are members of the Political Subdivision Pension Plan (PSPP), an agent, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55 or at any age with 25 years of service. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after 5 years of service and members joining prior to July 1, 1979, were vested after 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Tennessee State Veterans' Homes Board participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor, Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling 615-741-7063.

B. Funding Policy

The Tennessee State Veterans' Homes Board has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

The Tennessee State Veterans' Homes Board is required to contribute at an actuarially determined rate; the rate for the year ending June 30, 1999, was 8.67% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the board is established and may be amended by the TCRS' Board of Trustees.

C. Annual Pension Cost

For the year ending June 30, 1999, Tennessee State Veterans' Homes Board's annual pension cost of $196,711 to TCRS was equal to the board's required and actual contributions. The required contribution was determined as part of the June 30, 1997, actuarial valuation using the frozen initial liability actuarial cost method. Significant actuarial assumptions used in the valuation include

(a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement benefit increases of 3% of the retiree's most recent benefit. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 1999	$196,711	100.00%	$0.00
June 30, 1998	$176,998	100.00%	$0.00
June 30, 1997	$153,008	100.00%	$0.00

NOTE 9. RISK MANAGEMENT

The board is exposed to various risks of loss related to general liability; automobile liability; professional malpractice; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

A. The board carries surety bond coverage for risks of employee dishonesty. In the past three fiscal years, the board has not had any claims filed with the commercial insurer.

B. The building and contents are insured by the State of Tennessee. The board has scheduled coverage of $10,494,200 for the buildings and $1,254,400 for the contents.

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer on behalf of the board. A designation for casualty losses in the amount of $5 million has been established in the State of Tennessee general fund to provide for any property losses other than the commercial insurance coverage.

C. The board participates in the State of Tennessee's Claims Award Fund, an internal service fund in which the state has set aside assets for claims settlement. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the participating agencies based on a percentage of each agency's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation.

D. The board has elected to provide health coverage for its employees through a health plan for eligible local governments and quasi-governmental agencies in Tennessee. The Local Government Group Insurance Fund provides access to affordable health insurance by pooling risk among the groups. The plan provides for greater stability in controlling premium increases and, through a structured managed-care program, helps contain health care costs of participating members.

The plan is administered by the State of Tennessee, using a separately established fund. Premiums of participating units are deposited to this fund and used to pay claims for health care costs of participants, as well as the state's administrative costs of the plan. Employees have the option of obtaining insurance through either Blue Cross Blue Shield of Tennessee or Prudential Insurance. Claims are administered by these companies, which are currently under contract to provide these and other services to the state. Monthly insurance premiums are $206.16 for single coverage and $514.76 for family coverage under Blue Preferred, $196.35 for single coverage and $490.25 for family coverage under Blue Select, $181.39 for single coverage and $452.90 for family coverage under HMO Blue, and $168.30 for single coverage and $420.21 for family coverage under Prudential. The board's obligation under the plan is limited to $154.62 for Blue Preferred, $147.26 for Blue Select, $136.05 for HMO Blue, and $126.22 for Prudential. The employees are responsible for the remainder of the premium. Insurance premiums are adjusted at the end of the year based on the claims experience of the pool. Individual pool participants are not assessed additional premiums based on individual claims experience. Employees and providers have

13 months to file medical claims under Blue Cross Blue Shield of Tennessee and 90 days to file claims under Prudential.

Tennessee State Veterans' Homes Board
Required Supplementary Information
Schedule of Pension Funding Progress

(Expressed in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Funding Excess) AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded (Funding Excess) AAL as a Percentage of Covered Payroll [(b-a)/c]
6/30/97	$645	$645	$0	100.00%	$1,845	0.00%

Changes in Actuarial Assumptions

An actuarial valuation was performed as of June 30, 1997, to establish contribution rates as of July 1, 1998. As a result of the June 30, 1996, experience study, significant actuarial assumptions used in the valuation included (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 5.5% a year (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries) compounded annually, (c) projected 4.5% annual increase in the social security wage base, and (d) projected post-retirement increases of 3% annually of the retiree's most recent benefit. The actuarial assumptions set forth in (a), (b), and (c) above for the June 30, 1997, valuation differ from the assumptions used in the June 30, 1995, valuation. The June 30, 1997, actuarial valuation also utilized a different methodology for the actuarial value of assets. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of both fixed income and equity securities over a five-year period.

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999				June 30, 1998			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
ASSETS								
Current assets:								
Cash	$ 607,540.92	$ 611,670.23	$ 38,183.68	$ 1,257,394.83	$ 735,743.77	$ 96,708.31	$ 35,584.62	$ 868,036.70
Investment	-	-	25,076.78	25,076.78	-	-	25,076.78	25,076.78
Resident accounts receivable:								
Private	1,250,545.76	1,125,668.18	-	2,376,213.94	709,389.46	883,260.99	-	1,592,650.45
U.S. Department of Veterans Affairs	132,186.76	240,637.24	-	372,824.00	122,679.99	275,276.68	-	397,956.67
Primary Government	-	-	-	-	15,720.71	-	-	15,720.71
Allowance for doubtful accounts	(589,582.20)	(472,444.97)	-	(1,062,027.17)	(396,141.95)	(121,122.54)	-	(517,264.49)
Medicare cost settlement receivable	263,829.56	10,438.00	-	274,267.56	625,177.56	82,497.00	-	707,674.56
Medicaid cost settlement receivable	6,270.00	-	-	6,270.00	26,209.00	-	-	26,209.00
Due from Murfreesboro facility	-	171,822.60	-	171,822.60	-	279,759.66	-	279,759.66
Inventories	22,961.19	25,074.75	-	48,035.94	26,360.13	31,680.94	-	58,041.07
Prepaid items	19,059.71	(2,323.56)	928.36	17,664.51	17,199.04	3,871.73	-	21,070.77
Total current assets	1,712,811.70	1,710,542.47	64,188.82	3,487,542.99	1,882,337.71	1,531,932.77	60,661.40	3,474,931.88
Restricted assets:								
Cash	985,129.44	680,566.92	-	1,665,696.36	711,410.56	563,986.97	-	1,275,397.53
Total restricted assets	985,129.44	680,566.92	-	1,665,696.36	711,410.56	563,986.97	-	1,275,397.53
Other assets:								
Deposit with management company	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Unamortized bond issuance costs	25,577.48	98,487.87	-	124,065.35	27,331.28	103,050.99	-	130,382.27
Unamortized preopening expenses	-	52,974.94	-	52,974.94	-	86,430.94	-	86,430.94
							-	
Total other assets	35,577.48	151,462.81	-	187,040.29	37,331.28	189,481.93	-	226,813.21
Fixed assets:								
Land	33,700.00	160,544.00	-	194,244.00	33,700.00	160,544.00	-	194,244.00
Buildings and improvements	3,953,186.09	6,925,557.16	-	10,878,743.25	3,949,588.55	6,851,810.00	-	10,801,398.55
Accumulated depreciation - buildings and improvements	(846,275.77)	(605,819.23)	-	(1,452,095.00)	(739,348.49)	(425,843.25)	-	(1,165,191.74)
Furniture and equipment	790,280.22	824,600.71	-	1,614,880.93	731,876.22	769,732.44	-	1,501,608.66
Accumulated depreciation - furniture and equipment	(488,105.52)	(256,647.27)	-	(744,752.79)	(425,138.42)	(173,211.75)	-	(598,350.17)
Construction in progress	-	-	-	-	-	64,007.16	-	64,007.16
Total fixed assets	3,442,785.02	7,048,235.37	-	10,491,020.39	3,550,677.86	7,247,038.60	-	10,797,716.46
Total assets	$ 6,176,303.64	$ 9,590,807.57	$ 64,188.82	$ 15,831,300.03	$ 6,181,757.41	$ 9,532,440.27	$ 60,661.40	$ 15,774,859.08

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1999, AND JUNE 30, 1998

	June 30, 1999				June 30, 1998			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
LIABILITIES AND EQUITY								
Liabilities:								
Current liabilities:								
Accounts payable and accruals	$ 757,097.36	$ 550,696.59	$ -	$ 1,307,793.95	$ 605,765.52	$ 677,477.99	$ -	$ 1,283,243.51
Due to primary government	370,685.51	579,593.12	-	950,278.63	284,819.71	239,519.91	-	524,339.62
Amounts advanced by management company	17,385.68	86,147.83	-	103,533.51	46,191.15	51,445.07	-	97,636.22
Medicaid cost settlement payable	-	-	-	-	-	344.00	-	344.00
Amounts held in custody for others	52,990.26	26,214.21	-	79,204.47	53,420.01	42,962.94	-	96,382.95
Medicaid current financing	58,229.60	90,646.50	-	148,876.10	30,808.79	44,548.01	-	75,356.80
Due to Humboldt facility	171,822.60	-	-	171,822.60	279,759.66	-	-	279,759.66
Advance from primary government	10,000.00	-	-	10,000.00	10,000.00	-	-	10,000.00
Total current liabilities	1,438,211.01	1,333,298.25	-	2,771,509.26	1,310,764.84	1,056,297.92	-	2,367,062.76
Current liabilities payable from restricted assets:								
Bonds payable	80,000.00	75,000.00	-	155,000.00	75,000.00	75,000.00	-	150,000.00
Total current liabilites payable from restricted assets	80,000.00	75,000.00	-	155,000.00	75,000.00	75,000.00	-	150,000.00
Noncurrent liabilities:								
Bonds payable, net of unamortized discount	1,919,957.19	2,964,857.13	-	4,884,814.32	1,997,897.15	3,039,387.21	-	5,037,284.36
Advance from primary government	170,000.00	-	-	170,000.00	180,000.00	-	-	180,000.00
Total noncurrent liabilities	2,089,957.19	2,964,857.13	-	5,054,814.32	2,177,897.15	3,039,387.21	-	5,217,284.36
Total liabilities	3,608,168.20	4,373,155.38	-	7,981,323.58	3,563,661.99	4,170,685.13	-	7,734,347.12
Equity:								
Contributed capital	3,260,126.38	5,948,592.46	-	9,208,718.84	3,260,126.38	5,948,592.46	-	9,208,718.84
Retained earnings:								
Reserved for foundation	-	-	64,188.82	64,188.82	-	-	60,661.40	60,661.40
Unreserved	(691,990.94)	(730,940.27)	-	(1,422,931.21)	(642,030.96)	(586,837.32)	-	(1,228,868.28)
Total retained earnings	(691,990.94)	(730,940.27)	64,188.82	(1,358,742.39)	(642,030.96)	(586,837.32)	60,661.40	(1,168,206.88)
Total equity	2,568,135.44	5,217,652.19	64,188.82	7,849,976.45	2,618,095.42	5,361,755.14	60,661.40	8,040,511.96
Total liabilities and equity	$ 6,176,303.64	$ 9,590,807.57	$ 64,188.82	$ 15,831,300.03	$ 6,181,757.41	$ 9,532,440.27	$ 60,661.40	$ 15,774,859.08

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN EQUITY
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	For the Year Ended June 30, 1999				For the Year Ended June 30, 1998			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Operating revenue:								
Resident service revenue less contractual adjustments of $1,176,243.79 for 1999 and $2,258,249.92 for 1998	$ 5,037,894.91	$ 4,799,829.75	$ -	$ 9,837,724.66	$ 5,173,644.49	$ 4,533,069.94	$ -	$ 9,706,714.43
Total operating revenue	5,037,894.91	4,799,829.75	-	9,837,724.66	5,173,644.49	4,533,069.94	-	9,706,714.43
Operating expenses:								
Administrative and general	892,683.24	860,205.98	-	1,752,889.22	895,770.73	820,366.93		1,716,137.66
Nursing services	1,790,333.97	1,640,593.51	-	3,430,927.48	1,562,579.39	1,349,017.95	-	2,911,597.34
Central services	151,203.36	192,593.12	-	343,796.48	142,160.15	161,766.24	-	303,926.39
Ancillary departments	653,490.37	461,686.53	-	1,115,176.90	869,692.14	646,151.10	-	1,515,843.24
Dietary	455,038.88	390,217.45	-	845,256.33	417,630.75	339,580.15	-	757,210.90
Activities	66,698.64	65,392.26	-	132,090.90	59,029.46	51,009.83	-	110,039.29
Social services	57,892.45	50,843.72	-	108,736.17	41,784.14	43,936.15	-	85,720.29
Housekeeping services	190,856.24	167,913.53	-	358,769.77	168,210.24	144,775.75	-	312,985.99
Laundry and linens	91,529.31	91,581.33	-	183,110.64	82,893.36	70,974.56	-	153,867.92
Plant operations and maintenance	297,799.36	207,293.08	-	505,092.44	259,835.85	199,623.93	-	459,459.78
Depreciation	169,894.38	263,411.50	-	433,305.88	161,367.92	257,791.10	-	419,159.02
Amortization of preopening expenses	-	33,456.00	-	33,456.00	-	33,456.00	-	33,456.00
Bad debt expense	173,297.21	351,322.43	-	524,619.64	281,308.04	111,322.54	-	392,630.58
Other operating expenses	2,620.00	-	-	2,620.00	782.00	239.00	-	1,021.00
Total operating expenses	4,993,337.41	4,776,510.44		9,769,847.85	4,943,044.17	4,230,011.23	-	9,173,055.40
Operating income	44,557.50	23,319.31		67,876.81	230,600.32	303,058.71	-	533,659.03
Nonoperating revenues (expenses):								
Interest revenue	61,461.12	38,679.42	1,598.74	101,739.28	35,963.77	30,620.12	2,037.74	68,621.63
Miscellaneous revenue	400.00	276.60	19,978.00	20,654.60	10,970.00	6,551.00	18,552.78	36,073.78
Interest expense	(155,103.80)	(201,815.16)	-	(356,918.96)	(161,616.30)	(205,951.05)	-	(367,567.35)
Amortization of bond issuance costs	(1,753.80)	(4,563.12)	-	(6,316.92)	(1,753.80)	(4,563.12)	-	(6,316.92)
Cable television expense	-	-	(11,132.13)	(11,132.13)	-	-	(10,081.81)	(10,081.81)
Equipment donation	599.00	-	-	599.00	-	-	-	-
Equipment expense	-	-	(599.00)	(599.00)	-	-	-	-
Land improvements expense	-	-	-	-	-	-	(10,970.00)	(10,970.00)
Building improvements expense	-	-	-	-	-	-	(6,551.00)	(6,551.00)
Miscellaneous expense	(120.00)	-	(6,318.19)	(6,438.19)	-	-	(1,598.10)	(1,598.10)
Total nonoperating revenues (expenses)	(94,517.48)	(167,422.26)	3,527.42	(258,412.32)	(116,436.33)	(173,343.05)	(8,610.39)	(298,389.77)
Net income (loss)	(49,959.98)	(144,102.95)	3,527.42	(190,535.51)	114,163.99	129,715.66	(8,610.39)	235,269.26
Other changes in equity:								
Contributed capital	-	-	-	-	-	49,788.44	-	49,788.44
Net increase (decrease) in equity	(49,959.98)	(144,102.95)	3,527.42	(190,535.51)	114,163.99	179,504.10	(8,610.39)	285,057.70
Equity, July 1	2,618,095.42	5,361,755.14	60,661.40	8,040,511.96	2,503,931.43	5,182,251.04	69,271.79	7,755,454.26
Equity, June 30	$ 2,568,135.44	$ 5,217,652.19	$ 64,188.82	$ 7,849,976.45	$ 2,618,095.42	$ 5,361,755.14	$ 60,661.40	$ 8,040,511.96

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	For the Year Ended June 30, 1999				For the Year Ended June 30, 1998			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Cash flows from operating activities:								
Operating income	$ 44,557.50	$ 23,319.31	$ -	$ 67,876.81	$ 230,600.32	$ 303,058.71	$ -	$ 533,659.03
Adjustments to reconcile operating income to net cash provided (used) by operating activities:								
Depreciation and amortization	169,894.38	296,867.50	-	466,761.88	161,367.92	291,247.10	-	452,615.02
Miscellaneous nonoperating revenues	400.00	276.60	19,978.00	20,654.60	-	-	18,476.00	18,476.00
Miscellaneous nonoperating expenses	(120.00)	-	(18,049.32)	(18,169.32)	-	-	(29,200.91)	(29,200.91)
Changes in assets and liabilities:								
(Increase) in resident accounts receivable - private	(541,156.30)	(242,407.19)	-	(783,563.49)	(254,310.70)	(423,578.64)	-	(677,889.34)
(Increase) decrease in resident accounts receivable - U.S. Department of Veterans Affairs	(9,506.77)	34,639.44	-	25,132.67	146,598.25	(90,008.80)	-	56,589.45
(Increase) decrease in resident accounts receivable - primary government	15,720.71	-	-	15,720.71	(14,010.98)	107,254.97	-	93,243.99
Increase in allowance for doubtful accounts	193,440.25	351,322.43	-	544,762.68	287,033.17	111,322.54	-	398,355.71
Decrease in amounts advanced to management company	-	-	-	-	17.62	-	-	17.62
(Increase) decrease in Medicare cost settlement receivable	361,348.00	72,059.00	-	433,407.00	(167,476.20)	(28,501.00)	-	(195,977.20)
Decrease in Medicaid cost settlement receivable	19,939.00	-	-	19,939.00	10,278.00	-	-	10,278.00
(Increase) decrease in due from Humboldt/Murfreesboro	-	107,937.06	-	107,937.06	2,624.72	(279,759.66)	-	(277,134.94)
(Increase) decrease in inventories	3,398.94	6,606.19	-	10,005.13	(2,955.70)	(10,272.43)	-	(13,228.13)
(Increase) decrease in prepaid items	(1,860.67)	6,195.29	(928.36)	3,406.26	(12,814.05)	(321.73)	-	(13,135.78)
Increase (decrease) in accounts payable and accruals	154,273.08	(124,739.79)	-	29,533.29	63,962.49	(7,377.44)	-	56,585.05
Increase (decrease) in due to primary government	85,865.80	340,073.21	-	425,939.01	(34,696.92)	231,149.92	-	196,453.00
(Decrease) in due to U.S. Department of Veterans Affairs	-	-	-	-	-	(5,072.48)	-	(5,072.48)
Increase (decrease) in amounts advanced by management company	(28,805.47)	34,702.76	-	5,897.29	46,191.15	48,935.73	-	95,126.88
(Decrease) in Medicaid cost settlement payable	-	(344.00)	-	(344.00)	-	-	-	-
Increase (decrease) in amounts held in custody for others	(429.75)	(16,748.73)	-	(17,178.48)	(12,317.53)	23,099.14	-	10,781.61
Increase (decrease) in Medicaid current financing	27,420.81	46,098.49	-	73,519.30	(15,423.34)	14,593.70	-	(829.64)
Increase (decrease) in due to Humboldt/Murfreesboro	(107,937.06)	-	-	(107,937.06)	279,759.66	(2,624.72)	-	277,134.94
Total adjustments	341,884.95	912,538.26	1,000.32	1,255,423.53	483,827.56	(19,913.80)	(10,724.91)	453,188.85
Net cash provided by (used for) operating activities	386,442.45	935,857.57	1,000.32	1,323,300.34	714,427.88	283,144.91	(10,724.91)	986,847.88
Cash flows from noncapital financing activities:								
Principal paid on advance from state	(10,000.00)	-	-	(10,000.00)	(10,000.00)	-	-	(10,000.00)
Net cash used for noncapital financing activities	(10,000.00)	-	-	(10,000.00)	(10,000.00)	-	-	(10,000.00)

TENNESSEE STATE VETERANS' HOMES BOARD
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

	For the Year Ended June 30, 1999				For the Year Ended June 30, 1998			
	Murfreesboro	Humboldt	Foundation	Totals	Murfreesboro	Humboldt	Foundation	Totals
Contributed capital	-	-	-	-	-	5,196.44	-	5,196.44
Purchase of fixed assets	(61,402.54)	(64,608.27)	-	(126,010.81)	(50,651.93)	(66,831.30)	-	(117,483.23)
Principal paid on bonds	(75,000.00)	(75,000.00)	-	(150,000.00)	(70,000.00)	(50,000.00)	-	(120,000.00)
Interest paid on bonds	(155,985.00)	(203,386.85)	-	(359,371.85)	(160,815.00)	(206,106.10)	-	(366,921.10)
Net cash used for capital and capital-related financing activities	(292,387.54)	(342,995.12)	-	(635,382.66)	(281,466.93)	(317,740.96)	-	(599,207.89)
Cash flows from investing activities:								
Interest received	61,461.12	38,679.42	1,598.74	101,739.28	35,963.77	30,620.12	2,037.74	68,621.63
Net cash provided by investing activities	61,461.12	38,679.42	1,598.74	101,739.28	35,963.77	30,620.12	2,037.74	68,621.63
Net increase (decrease) in cash	145,516.03	631,541.87	2,599.06	779,656.96	458,924.72	(3,975.93)	(8,687.17)	446,261.62
Cash, July 1	1,447,154.33	660,695.28	35,584.62	2,143,434.23	988,229.61	664,671.21	44,271.79	1,697,172.61
Cash, June 30	$ 1,592,670.36	$ 1,292,237.15	$ 38,183.68	$ 2,923,091.19	$ 1,447,154.33	$ 660,695.28	$ 35,584.62	$ 2,143,434.23
Noncash investing, capital, and financing activities:								
Increase in value of investment	$ -	$ -	$ -	$ -	$ -	$ -	$ 76.78	$ 76.78
Donated equipment and improvements	-	-	-	-	10,970.00	51,143.00	-	62,113.00
Total noncash investing, capital, and financing activities	$ -	$ -	$ -	$ -	$ 10,970.00	$ 51,143.00	$ 76.78	$ 62,189.78